

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 L-03 TRSE-00 SP-02 USIA-06

AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04 OMB-01

CEA-01 PM-04 PRS-01 CIAE-00 INR-07 NSAE-00 SSO-00

INRE-00 NSCE-00 IGA-02 FRB-03 /078 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 1868

C O N F I D E N T I A L LIMA 8516

FOR ARA - WILLIAM LUERS, L - MARK FELDMAN, TREASURY -
RICHARD ERB

E.O. 11652: GDS

TAGS: BDIS, EIND, EINV, EMIN, PFOR, PE

SUBJECT: MARCONA - STATUS REPORT

1. SUMMARY: GOP WANTS TO SETTLE--BUT IS HAVING DIFFICULTY COPING
WITH SHIPPING ASPECT OF APRIL AGREEMENT IN PRINCIPLE. WE
BELIEVE, HOWEVER, IT MAY STILL BE POSSIBLE TO REACH AGREE-
MENT WITHIN HOURS BY MAXIMIZING CASH AND ORE SALES, AND
THEREFORE WISH TO ALERT DEPARTMENT TO POSSIBLE NEED FOR
CLEARANCE FOR SOMEWHAT REVISED TEXT OF INTERGOVERNMENTAL AGREE-
MENT BEING SENT SEPTEL. END SUMMARY.

2. AS OF SUNDAY NIGHT, VIRTUALLY ALL ISSUES RELATING TO ORE
SALES CONTRACT HAD BEEN RESOLVED, BUT SERIOUS PROBLEM EXISTED
OVER FREIGHT RATES TO BE INCLUDED IN SHIPPING CONTRACT.
U.S. TEAM HAD BEEN CONSIDERING, WITHOUT ACCEPTING, PERUVIAN
PROPOSAL CALLING FOR A PACKAGE OF \$30.2 MILLION CASH (NOTE
PAYABLE WHEN BALANCE OF PAYMENT FINANCING BECOMES AVAILABLE,
PROBABLY ABOUT NOVEMBER 1), \$11 MILLION IN COMPENSA-
TION FROM FREIGHT CONTRACT (PRESENT CONTRACT PLUS
THREE YEAR EXTENSION), AND REVISED ORE SALES CONTRACT,
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INCLUDING ALREADY AGREED 3.1 MILLION TONS OVER THREE

YEARS (\$18 MILLION ASSUMING \$6 PER TON MARGIN) PLUS
ADDITIONAL 633,000 TONS TO PRODUCE ADDITIONAL ESTIMATED
\$3.8 MILLION. ASSUMING FREIGHT CONTRACT DETAILS CAN BE
WORKED OUT, OR SUITABLE ALTERNATIVE MEANS TO PRODUCE
NECESSARY \$9 MILLION CAN BE FOUND, CONTRACTS, PROMISSORY
NOTE AND INTERGOVERNMENTAL AGREEMENT WILL BE PRESENTED
TO COUNCIL OF MINISTERS TUESDAY, WITH SIGNATURE OF ALL
FOUR SCHEDULED FOR WEDNESDAY.

2. GOP HAS DECIDED THAT RATHER THAN TRY TO CONCEAL IN-
DIRECT PORTION OF SETTLEMENT, IT WILL PUBLICLY ACKNOWLEDGE
NOT ONLY DIRECT CASH PAYMENT BUT ESTIMATED INDIRECT COM-
PENSATION ELEMENTS OF PACKAGE AS WELL. AS A RESULT, IT
HAS REVERTED TO ORIGINAL CONCEPT (SUGGESTED BY US) OF
INTERGOVERNMENTAL AGREEMENT (RATHER THAN JOINT COMMUNIQUE
PLUS EXCHANGE OF NOTES COVERING QUITCLAIM). DRAFT TEXT--
WHICH WE WILL CABLE MONDAY A.M. TO WASHINGTON--LARGELY
INCORPORATES ALREADY AGREED LANGUAGE AND APPEARS TO RAISE
NO SERIOUS PROBLEMS.

3. KEY AREA STILL IN DISPUTE, AS NOTED ABOVE, IS FREIGHT
RATES, MARCONA'S RATES, WHILE BASED ON WORLD SHIPPING
INDEXES, ARE SIGNIFICANTLY HIGHER THAN RECENT QUOTES
RECEIVED BY PERUVIAN SHIPPING ENTITY, AND KEY MINISTERS
ARE BOTH WORRIED ABOUT PUBLICLY EXPLAINING WHY MARCONA
IS BEING PAID A HIGHER RATE, AND SUSPICIOUS OF MARCONA'S
GOOD FAITH. WE ARE EXPLORING ALTERNATIVE MEANS OF
REALIZING \$9 MILLION IN COMPENSATION (EXISTING FREIGHT
CONTRACT WILL PRODUCE ABOUT \$2 MILLION) AND BY MIDDAY
MONDAY SHOULD HAVE SOME IDEA HOW MATTER WILL BE RESOLVED.

4. ARA PLEASE REPEAT TO HARRY SHLAUDEMANN. DEAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENT DRAFT, INTERGOVERNMENTAL COOPERATION, MINING INDUSTRY, FREIGHT RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: powellba
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LIMA08516
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760354-1305
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760942/aaaabjnz.tel
Line Count: 93
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUL 2004 by saccheem>; APPROVED <28 OCT 2004 by powellba>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MARCONA - STATUS REPORT
TAGS: BDIS, EIND, EINV, EMIN, PFOR, PE, MARCONA MINING CO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006